

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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This year has started with several noteworthy bangs. On January 1, 2007, the Boise State University football team defeated the University of Oklahoma in the Fiesta Bowl. Some claim the collective cheer that rose up when running back Ian Johnson scampered into the end zone for the game-winning two-point conversion registered on seismographs throughout the Rocky Mountains. Thirty days later fans of the U.S. economy created a small aftershock of their own when the U.S. Department of Commerce released its advance estimate of real Gross Domestic Product (GDP) that showed output rose at a healthy 3.5% annual clip in the last quarter of 2006. This surprised many economists who had assumed growth would sputter in the fourth quarter. However, they were surprised by the above-trend economic growth, like the perfectly executed hook-and-ladder play that shocked the Sooner secondary.

The Bronco's win in Glendale has had a ripple effect beyond Boise State's famous blue turf. For example, Boise State University reported a jump in inquiries from prospective students after its victory. In football, productivity can be measured by several statistics; e.g., yards per carry, number of first downs, points per game, etc. In economics, productivity measures the amount of output per hour of labor. According to the U.S. Department of Labor, nonfarm business productivity grew at a 3.0% annual pace during the fourth quarter of 2006, as output grew 4.2% while

hours increased 1.2%. On an annual basis, nonfarm business productivity increased 2.1% in 2006, about the same as in 2005. A major benefit of growing productivity is it raises living standards because more output is produced per hour of labor. Faster productivity growth also helps keep the lid on inflation by keeping unit labor cost gains modest. And lower inflation allows the Federal Reserve to keep interest rates low.

Unfortunately, output and productivity gains can be erased faster than a touchdown due to a holding penalty. Unlike game statistics which are recorded in ink, economic estimates are subject to frequent and sometimes drastic revisions. These revisions occur because early government numbers include imputed estimates for missing data. These imputed numbers are replaced as actual data become available over time. Thus, several versions of the same indicator are published. For example, in the case of national output, the first release is the advance GDP estimate. It is followed by the preliminary release. The preliminary release is then followed by the final release. However, the final release is not the final number. For example, the final GDP numbers are subject to comprehensive revisions that are carried out at about 5-year intervals.

Like a championship football team, the U.S. Department of Commerce reviews its past performance. To this end, it recently prepared a study based on 1983 to

2003 data that evaluates how its advance real GDP estimates compared to subsequent ones. This study shows the average difference between the advance and preliminary estimates is plus or minus 0.5%. The average difference between the advance and final estimates is 0.6%. By far the largest difference is plus or minus 1.3% between the advance and latest estimates.

At this point it appears the economy ended 2006 on a high note. But there is mounting evidence the advance report exaggerated output growth in last year's fourth quarter. Global Insight economist Nigel Gault estimated in mid-February that real GDP actually grew about 2.1%, which is well below the 3.5% advance estimate. His analysis points out almost all of the data available since the advance GDP estimate was prepared have turned out to be lower than had been expected. If Mr. Gault is correct, the fourth quarter productivity growth will be revised down from 3.0% to around 1.2%. This change suggests unit labor costs were rising 3.5%, or about twice as fast as had been previously estimated. These adjustments could reignite fears about inflation which could cause the Federal Reserve to adopt a different game plan.

The February preliminary GDP release shows output increased 2.2%, a significant reduction from the 3.5% advance estimate. So far it looks like Mr. Gault is right!

C.L. "BUTCH" OTTER, Governor

Division of Financial Management

700 W. Jefferson, Room 122

PO Box 83720

Boise, Idaho 83720-0032 (208) 334-3900

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## RETURN SERVICE REQUESTED

Brad Foltman, Administrator

### Economic Analysis Bureau

Michael H. Ferguson, Chief Economist

Derek E. Santos, Economist

## General Fund Update

As of January 31, 2007

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY07 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,273.6	727.9	736.8
Corporate Income Tax	208.2	101.7	85.7
Sales Tax	1,084.7	635.2	627.1
Product Taxes <sup>1</sup>	22.2	14.6	14.6
Miscellaneous	117.6	49.0	53.2
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,706.3</b>	<b>1,528.3</b>	<b>1,517.4</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of January 2007

General Fund revenue stabilized in January, making up about one-third of the ground lost in December's abrupt and precipitous drop. January revenue was \$6.7 million higher than expected, and the fiscal year-to-date balance is now \$10.9 million below expectations as of January 31<sup>st</sup>. This positive development is tempered a bit by an unusually large amount of variability in the individual categories of the General Fund revenue stream.

Individual income tax receipts almost single-handedly accounted for January's turnaround. Overall this category was \$15.2 million higher than expected for the month, and it is now \$8.9 million higher than the target for the fiscal year to date. The strongest component of the income tax was withholding collections, which was \$15.2 million higher than expected for the month, and is now

\$15.5 million ahead of expectations for the fiscal year to date. January's expected growth rate was 6.4%, but the actual growth rate was 22.1%.

Corporate income tax revenue fell short of expectations for the second month in a row, coming in \$7.8 million low for the month, and now standing \$15.9 million low for the fiscal year to date. January's shortfall was due to a combination of estimated payments coming in \$3.0 million lower than expected and filing payments that were \$6.9 million lower than expected. This was mitigated in part by refunds that were \$1.4 million lower than expected in January. It appears that a large portion of January's filing weakness is related to excessive estimated payments that were received during 2006.

Sales tax had its third straight down month of the fiscal year, coming

in \$3.7 million lower than expected in January. A close examination of the sales tax monthly collection patterns suggests that there has been a shift in recent years away from January and into February receipts. This is consistent with evidence from retailers that gift certificates are a rapidly growing phenomenon, and those sales are not reported until the time the gift certificate is actually redeemed. If this is what is going on, we should see a recovery of sales tax in February. Stay tuned....

Product taxes were essentially on target in January, and miscellaneous revenues were \$3.2 million ahead of target due primarily to strong interest earnings. We believe the January bounce in interest earnings is simply a matter of timing, and it does not represent actual additional revenue.